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Petrofina Canada Ltd.

17th Annual Report 1970



Petrofina Canada Ltd.

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The front cover of the report shows construction in progress at the Company's Pointe-aux-Trembles refinery. This is a portion of the new aromatic plant.

Highlights of the Year

	1970	1969
FINANCIAL		
Revenues	\$191,866,000	\$185,179,000
Cash income		
(net income plus write-offs)	27,745,000	23,243,000
Net income		
(including non-recurring capital gain)	16,555,000	13,402,000
— per Common Share	1.66	1.34
Dividends paid on Common Shares	6,973,000	6,970,000
— per Common Share	.70	.70
Capital expenditures	27,579,000	21,585,000
Long-term debt at end of year	65,384,000	55,772,000
Shareholders' equity at end of year	161,536,000	151,915,000
OPERATING		
Production of crude oil and natural gas liquids		
— gross (barrels)	6,217,000	5,324,000
Natural gas produced and sold		
— gross (thousands of cubic feet)	32,306,000	27,945,000
Sales of sulphur (long tons)	124,000	106,000
Crude oil runs to refinery (barrels)	20,671,000	19,125,000



Directors & Officers

Principal Officers

A. F. CAMPO
Chairman of the Board and
Chief Executive Officer
J. R. PATTON
President
J. CARTIER
Vice-President (Marketing)
DONALD S. HARVIE
Vice-President
(Exploration and Production)
H. J. HUGHES
Vice-President and Comptroller
A. W. McLEOD
Vice-President, General Counsel
and Secretary
J. F. MILLS
Vice-President (Manufacturing)
K. S. C. MULHALL
Vice-President and Treasurer

Board of Directors

W. A. ARBUCKLE
Chairman of the Canadian Board
of the Standard Life
Assurance Company
L. BEAUDOIN
President, Bombardier Ltd.
A. F. CAMPO
Chairman of the Board and Chief Executive
Officer, Petrofina Canada Ltd.
F. M. COVERT, O.B.E., D.F.C., Q.C.
Senior Partner,
Stewart, MacKeen & Covert
W. L. FORSTER, C.B.E.
Consultant
DONALD S. HARVIE
Chairman of the Board and President,
Canadian Fina Oil Limited
EMMANUEL LAMY
President,
Banque de l'Union Parisienne, C.F.C.B.
ROGER LETOURNEAU, Q.C.
Senior Partner, Letourneau, Stein,
Marseille, Delisle & LaRue
J. MEEUS,
President and Chief Executive
Officer, Petrofina, S.A.
TRAJAN NITESCU
Petroleum Consultant
BLANCHE NOYES
Partner,
Hornblower & Weeks-Hemphill, Noyes
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President, Petrofina Canada Ltd.
SAM STEINBERG
Chairman of the Board, Steinberg's Limited
PETER N. THOMSON
Deputy Chairman,
Power Corporation of Canada, Limited
BARON WOLTERS
Chairman of the Board, Petrofina S.A.

Executive Offices

The Royal Bank of Canada Building,
1 Place Ville Marie,
Montreal 113, Quebec, Canada

Auditors

Clarkson, Gordon & Co.

Transfer Agent

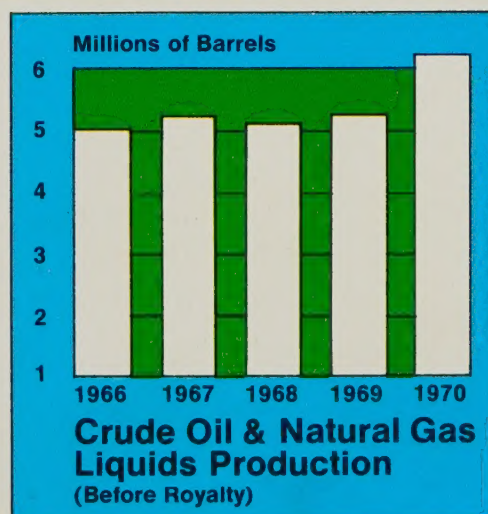
Montreal Trust Company

Registrar

The Royal Trust Company

Ce Rapport a été publié en français et en anglais. Si vous préférez un exemplaire français, veuillez en faire la demande au: Secrétaire, Petrofina Canada Ltée 1 Place Ville Marie, Montréal, Québec, Canada

To The Shareholders



In 1970, Canada experienced a slowdown in economic activity, characterized by a sluggish growth in production, an absence of any sustainable demand factor and a high rate of unemployment.

Throughout the year, weaknesses were evident in a number of key sectors of the economy. Business investment in non-residential construction and machinery was minimal, and many proposed investments were deferred as margins of profit became lower. An equally depressed area developed in consumer expenditures.

Reduced industrial output and lagging consumer markets contributed to unemployment which averaged 6.6% during 1970. The only bright feature was Canada's performance in the external sector as exports reached a record of about 17 billion dollars, and Canada's merchandise trade surplus an unprecedented 3 billion dollars.

Gross National Product in constant dollars increased by 3½% in 1970, compared with 4¼% in 1969.

Contrary to the general trend, the Canadian petroleum industry experienced a good growth record. Production of crude oil and natural gas liquids reached an average of 1,488,300 barrels per day, an increase of 13.5%. Much of this increase resulted from exports to the United States which rose 25%. Natural gas sales reached 5 billion cubic feet per day, an increase of 14.7% over the previous year.

The Company's net earnings amounted to \$16,555,000. (\$1.66 per share), compared with \$13,402,000. (\$1.34 per share) in 1969. Included in this year's earnings is a non-recurring capital gain of \$1,508,000. (\$0.15 per share). Further details concerning the financial affairs of the Company appear elsewhere in the report.

TOP: The floating rig used to drill the offshore East Point well, adjacent to Prince Edward Island.

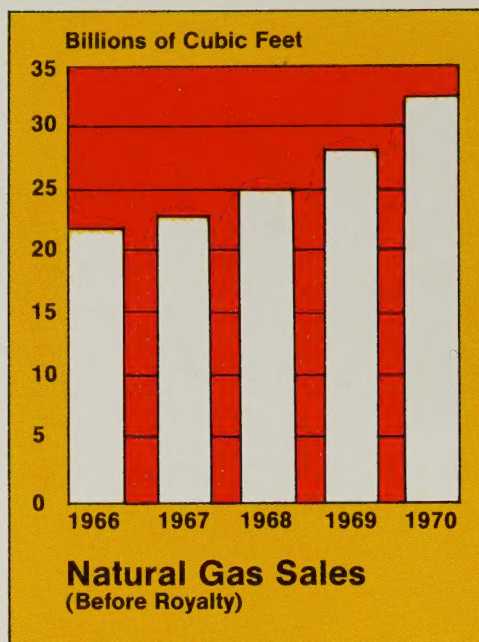
LEFT: A picture of the Company's aircraft. This is utilized in Western Canada to reach remote areas not serviced by commercial airlines.

RIGHT: A picture of one of the new fractionating columns being set upon its foundation at Pointe-Aux-Trembles.

MIDDLE: A drilling rig operating in the Wildcat Hills area of Alberta.

FAR RIGHT: The 24" pipeline of the Montreal Pipeline Company Limited at St. Cesaire, Quebec.

BELOW: The Company's gas plant at Wildcat Hills, Alberta.



During 1970, a number of changes occurred in the composition of your Board of Directors.

Mr. Jean Raymond, Q.C., who had been a Director of the Company since 1953 died suddenly, and it is with deep regret that we record his passing. He was of great assistance to the Company, particularly in its formative years.

Having reached the statutory retirement age, Mr. D.W. Ambridge, Mr. Paul Bienvenu, and Mr. J.R. Timmins, did not stand for re-election to the Board. Their presence will be greatly missed.

Mr. J. Meeus, President and Chief Executive Officer of Petrofina S.A., and Mr. Laurent Beaudoin, the President of Bombardier Ltd., became directors. We welcome with a great deal of enthusiasm these two outstanding business men.

At the end of the year, the Company acquired 100% control of Fina Metal Ltd. and Finacentres Limited. The accounts of these two companies have been incorporated on a retroactive basis and comparative figures for 1969 have been restated.

As at December 31, 1970, the Company had 2,057 employees. The increase in the number compared with the previous year was due principally to the acquisition of the two above-mentioned companies.

The dedicated efforts of the staff and their contribution toward the continued progress of the Company are deeply appreciated.

Exploration and Production

The Company continued its exploration and production operations during 1970 through its 100% owned Canadian Fina organization headquartered in Calgary, Alberta. Our current widespread activity and land ownership position is detailed on the map inserted in this report.

At the end of 1970, varying interests were held in petroleum rights covering 76.3 million acres amounting to 8.9 million net acres. The decrease of 1.5 million acres from the previous year is the net result of normal activity represented by acquisitions.

dispositions and conversions of permit lands to lease. The Maritime Project accounted for almost 1 million acres of this decrease as the Company's residual interest in 10 million acres will be reduced to 16⅔% from 25% through an option arrangement whereby a new partner may earn its interest by spending \$7,000,000. in exploration. The earning obligations include paying the costs of the East Point offshore well. This well commenced drilling at a location some 22 miles northeast of Prince Edward Island in June and was suspended in November due to winter weather conditions at a depth of 11,569'. Operations will be resumed when equipment becomes available to deepen this well to at least 15,000'. The 1970 programme also included a marine geophysical survey covering 1,800 miles and the drilling of our first offshore well in the Northumberland Strait between Nova Scotia and Prince Edward Island. This well was abandoned without encouragement at a depth of 9,876'.

As a method of acquiring a position in areas of geological prospect, the Company negotiated several farm-in arrangements during the past year. The most significant contract of this nature involves holdings at Beaton River, British Columbia, where the Company will earn a 50% interest in 51,000 acres by paying all costs of a continuous six well drilling programme which commenced in December. Two other contracts provided for the drilling of good prospects in the northeast corner of British Columbia (Kimea) and the central Northwest Territories (Blackwater Lake) respectively.

Operations in the Hudson Bay during 1970 included a 3,000 mile marine geophysical programme. This project now comprises 59 million acres of offshore and land permits in which our interest is 6¼%. Expensive drilling decisions now face us and may well be determined by forthcoming Federal Government policies on taxation and oil and gas land regulations.





Since our report last year, a deep exploratory well on our Sundre holdings south of Ricinus-Strachan was abandoned after finding a D-3 Reef which proved unproductive at this location. At year-end, two other competitor wildcats were being drilled in the vicinity and the results will significantly affect us.

Other exploration programmes involving geophysical surveys were conducted in the Ft. McPherson and the Willow Lake-Ft. Simpson areas of the Northwest Territories and several areas of Alberta.

In summary, the 1970 drilling programme consisted of participation in 54 wells on properties across Canada in which the Company holds an interest. The entire cost of 19 of these wells was paid by others in accordance with the farm-out arrangements concerned. This programme resulted in 6 oil wells, 9 gas wells, 2 suspended wells, 1 injection well and 30 abandonments. At year-end, 6 wells were drilling.

In 1970, production of crude oil and natural gas liquids amounted to 6.2 million barrels, before royalty, an increase of 16.8% over 1969 production of 5.3 million barrels. Our average production for the year was 17,000 barrels per day. Natural gas sales increased approximately 15.6% from 28 billion cubic feet to 32 billion cubic feet and sulphur sales approximately 17% from 106,000 long tons to 124,000 long tons. The sulphur stockpile at year-end was 67,000 long tons, an increase of 34,000. Unfortunately, sulphur prices have dropped substantially and we can expect the low realizations to continue at least through 1971.

The granting of significant additional export gas permits to the U.S. and the easing of U.S. oil import restrictions, coupled with a 10% crude price increase at year-end, will prove very beneficial to our future cash flow from production operations.

At Greencourt, Alberta, the new gas processing plant was placed on stream in June 1970. We hold a 17.6% interest in this project and operate the plant and facilities for the group of companies which form the unit. Daily deliveries for the year averaged approximately 15 million cubic feet of sales gas.

The gas plant operated by the Company at Wildcat Hills, near Calgary, delivered an average of 79 million cubic feet per day of sales gas. Water treatment facilities are being constructed as an anti-pollution measure. Our interest in the unit, wells, gathering system and plant is 18%.

At Whitecourt, the Kaybob South Unit No. 2 gas processing system was placed on stream in February and has since delivered a daily average of 18.6 million cubic feet of sales gas, 10,600 barrels of condensate and 879 long tons of sulphur. The Company's interest is about 8.8%. The Kaybob South Unit No. 3 plant, in which a 7.3% interest is held, is still under construction and scheduled for completion in July. The Company's share of the total investment for both Kaybob Units is now estimated at about \$13 million.

The proven crude oil and natural gas liquids reserves, before royalty, were estimated to be approximately 114 million barrels at the end of the year; no change from the end of 1969 although 6.2 million barrels were produced. Proven reserves of natural gas increased 4% over the past year from 749 billion cubic feet to 779 billion cubic feet. Proven sulphur reserves were estimated at 3.1 million long tons; no change from the end of 1969.

The Company received an attractive cash offer late in the year for its 9.6% share interest in the Producers Pipelines Ltd. system which serves southeast Saskatchewan. We accepted the offer, the proceeds of which yielded the non-recurring capital gain shown for the year.

ABOVE: The Company has developed a new type of lubricant for snowmobiles. Sales of Fina "POLY-B" have exceeded expectations.



Supply and Refinery Sales

During the year, 20,853,000 barrels of crude oil were delivered to the Company's Pointe-aux-Trembles refinery. This represented an increase of 8% compared with the previous year.

Marine transportation rates continued to increase materially and reached levels never before experienced in the oil industry. In view of the long term chartering arrangements available to the Company, we were able to avoid for the most part, the impact of these abnormal conditions.

The transportation of refined petroleum products is one of the principal operations of the Supply Department and in 1970, approximately 645 million gallons were distributed to the various outlets operated by your Company.

The Canadian chemical market maintained its normal growth pattern during the year under review, and the Company's petrochemical production improved slightly. This was offset,

however, to some extent by a general decline in prices which was directly attributable to the increased value of the Canadian dollar.

The chemicals produced and sold by your Company include nonenes, polyisobutylene and vanadium pentoxide. In addition, during 1970, sales contracts were successfully executed for the anticipated sale of aromatics in the export and domestic markets. Aromatics production will commence in 1971.

Manufacturing

The refinery processed a record volume of 20,671,000 barrels of crude oil for an average of 56,600 barrels per day, representing an increase of 8.1% over 1969.

In keeping with the Company's interest in environmental control, a new air floatation unit was received and installation commenced at the year-end. This unit will be instrumental in improving the quality of waste water.

Among the other normal developments at the refinery were the installation of new tankage in the amount of 555,000 barrels and the construction of a new 24" diameter crude oil line from the new Montreal Pipeline satellite manifold to our north tank farm.

The refinery site presented an active appearance during 1970, with the expansion programme well underway and work proceeding according to schedule.

The aromatics extraction unit was completed to the extent of approximately 83%. The major equipment relating to the Hydrodealkylation unit was received and set on foundations at year-end. Detailed design of the other major units was completed and orders placed for some of the specialized units.

The Company's expansion programme has been instrumental in improving the employment picture in Quebec. During 1970, approximately 368 part-time workers were employed and by mid 1971, it is expected this figure will increase to approximately 500.

Marketing

In spite of difficult economic conditions and aggressive competition, the volume of sales continued to increase in most classes of products during 1970.

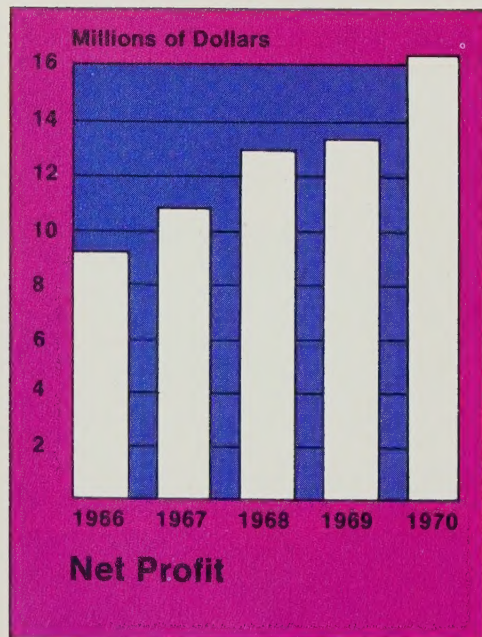
Sixteen new retail outlets were added to our service station chain in the Toronto metropolitan area, by the acquisition of an existing jobber organization.

The Company continued to adhere to the principle of not using promotional gimmicks which, in its opinion, are not in the public interest. In addition, it strongly opposed the introduction of a third grade, low-lead or no-lead gasoline, considering it premature and ill-advised from the point of view of both cost and performance. The Company will modify the specifications of its gasolines only when the situation as to anti-pollution devices to be installed in automobiles will be clarified.

In late 1970, the Company introduced a new lubricant for the use in two-stroke engines which power snowmobiles. The basic ingredient is polyisobutylene, a synthetic hydrocarbon manufactured exclusively in Canada at our Montreal refinery, where it is blended to produce the finished product. The acceptance of this "Fina POLY-B" lubricant has been remarkable and sales objectives have been exceeded substantially.

Financial Review

During 1970, the Company experienced a satisfactory year with a good increase in consolidated net earnings compared with the previous year. The increase in sales and production, together with a substantial decrease in foreign exchange costs, and a non-recurring capital gain, were effective in producing net consolidated earnings of \$16,555,000., compared with \$13,402,000. in 1969.

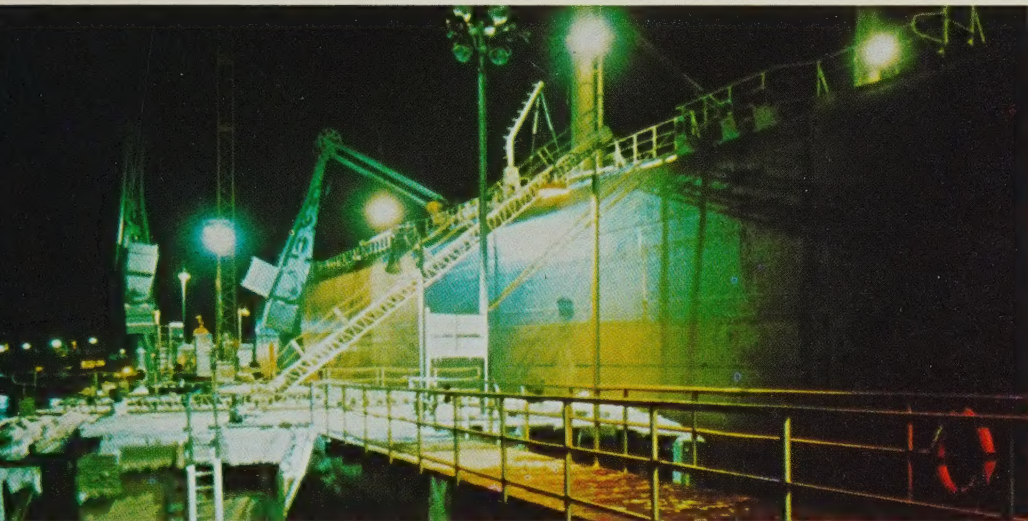




TOP LEFT: A picture of one of the Company's new trailer trains used to deliver products to bulk plants and service stations. The unit has a capacity of 11,600 imperial gallons.

ABOVE: One of the Company's newly designed pump islands.

LEFT: Unloading crude oil at the terminal of the Portland Pipeline Corporation.



A statistical comparison of earnings during the past three years is as follows:

	1970	1969	1968
Net income	\$16,555,000*	\$13,402,000	\$13,014,000
Net earnings per share	\$1.66*	\$1.34	\$1.31

Cash generated from operations during the past three years has been as follows:

	1970	1969	1968
Cash generated from operations	\$27,745,000*	\$23,243,000	\$22,774,000
Cash generated per share	\$2.78*	\$2.32	\$2.29

*Including a non-recurring capital gain of \$1,508,000 (\$0.15 per share), in connection with the sale of the shares of Producers Pipelines Ltd.

In 1970, dividends totalling \$0.70 per share were paid in the total amount of \$6,973,000. For Canadian shareholders these dividends are entitled to a 10% depletion allowance for tax purposes in addition to the normal 20% dividend tax credit.

As a result of increased earnings and the related cash flow, the Company's working capital increased to \$16,598,000.

The following capital amounts were invested in properties, plant and equipment:

Exploration and Production	\$12,065,000
Manufacturing	8,931,000
Marketing	6,338,000
Other	245,000
	<u>\$27,579,000</u>

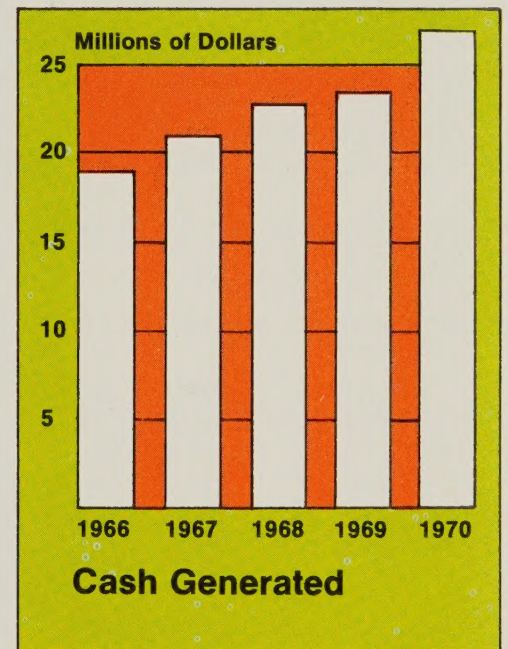
In connection with the expansion of the Company's refinery at Pointe-aux-Trembles, financing on a long-term basis has been arranged in an amount of approximately \$44,000,000. with a German bank. Further details concerning this loan appear in the "Notes to the Consolidated Financial Statements".

Submitted on behalf of the Board

A. Campo

Chairman of the Board and
Chief Executive Officer

March 5, 1971





Petrofina Canada Ltd. and Subsidiaries

(Incorporated under the laws of Canada)

Consolidated Balance Sheet December 31, 1970

(with comparative figures at December 31, 1969 — note 1)

Assets

	1970	1969
CURRENT:		
Cash	\$ 6,186,451	\$ 4,247,625
Accounts receivable, less allowance for doubtful accounts	30,638,687	37,373,266
Due from affiliated companies	23,008,697	11,603,590
Inventories — (note 1)		
Oil products and other merchandise	21,284,857	16,398,020
Materials and supplies	3,535,766	3,408,029
Prepaid expenses	1,346,409	1,444,173
Total current assets	86,000,867	74,474,703
INVESTMENTS AND ADVANCES — at cost:		
Investments in other companies	2,462,640	2,766,692
Exploration, development and production deposits	728,065	811,543
Mortgages and other advances	7,957,294	7,464,054
	11,147,999	11,042,289
PROPERTIES, PLANT AND EQUIPMENT — (notes 1 and 2)	191,583,668	176,563,746
DEFERRED CHARGES:		
Unamortized debt discount and expense	23,926	41,870
Other (note 3)	4,319,296	2,764,964
	4,343,222	2,806,834
PREMIUMS PAID ON ACQUISITIONS — at cost	8,755,447	7,590,984
	\$301,831,203	\$272,478,556

On behalf of the Board:

A. F. CAMPO, Director

J. R. PATTON, Director

Liabilities and Shareholders' Equity

	<u>1970</u>	<u>1969</u>
CURRENT:		
Accounts payable and accrued charges	\$ 28,447,834	\$ 21,385,164
Due to parent company	2,755,647	2,857,833
Due to affiliated companies	3,886,395	5,099,538
Notes and bills payable	27,072,607	23,940,847
Current maturities of long-term debt	7,240,353	5,678,426
Total current liabilities	69,402,836	58,961,808
ADVANCES BY PARENT COMPANY (U.S. \$5,000,000) not due within one year	5,053,125	5,364,063
LONG TERM DEBT (note 4)	65,383,585	55,772,470
MINORITY INTEREST	455,306	464,886
Total liabilities	140,294,852	120,563,227
SHAREHOLDERS' EQUITY:		
Capital — (note 5)		
Common shares of \$10 par value:		
Authorized — 12,000,000 shares		
Issued — 9,962,174 shares		
(1969 — 9,958,974 shares)	99,621,740	99,589,740
Contributed surplus (note 5)	15,516,050	15,508,498
Retained earnings (note 4)	46,398,561	36,817,091
	161,536,351	151,915,329
COMMITMENTS AND CONTINGENCIES (note 7)		
	\$301,831,203	\$272,478,556



Petrofina Canada Ltd. and Subsidiaries

Consolidated Statement of Income Year Ended December 31, 1970

(with comparative figures for the year 1969 — note 1)

	1970	1969
Gross income:		
Operating income	\$190,176,919	\$183,025,416
Interest and other income	1,688,957	2,153,690
	191,865,876	185,179,106
Operating charges:		
Costs, operating, selling and general	158,304,985	154,783,367
Taxes other than income taxes	3,974,564	3,856,097
Depreciation (note 1)	6,721,578	6,055,832
Depletion	4,278,885	3,602,687
	173,280,012	168,297,983
	18,585,864	16,881,123
Interest and discount on long-term debt	3,516,684	3,457,019
Income before minority interest and extraordinary item	15,069,180	13,424,104
Income applicable to minority interest	22,500	22,500
Income before extraordinary item	15,046,680	13,401,604
Extraordinary item:		
Profit on sale of an investment	1,508,277	—
Net income	\$ 16,554,957	\$ 13,401,604
Earnings per share before extraordinary item	\$1.51	\$1.34
Extraordinary item	.15	—
Earnings per share	\$1.66	\$1.34

Consolidated Statement of Retained Earnings Year Ended December 31, 1970

(with comparative figures for the year 1969 — note 1)

	1970	1969
Retained earnings, beginning of year		
As previously reported	\$38,109,410	\$31,704,926
Charge arising from inclusion of companies not previously consolidated (note 1)	(1,292,319)	(1,319,922)
As restated	36,817,091	30,385,004
Net income for the year	16,554,957	13,401,604
	53,372,048	43,786,608
Dividends	6,973,487	6,969,517
Retained earnings, end of year	\$46,398,561	\$36,817,091



Petrofina Canada Ltd. and Subsidiaries

Consolidated Statement of
Source and Application of Funds
Year Ended December 31, 1970
(with comparative figures for the year 1969 — note 1)

	1970	1969
Source of funds:		
Operations —		
Net income	\$16,554,957	\$13,401,604
Depreciation, depletion and amortization	11,189,548	9,841,705
Total funds from operations	27,744,505	23,243,309
Long-term borrowings	17,424,323	9,034,500
Sale of fixed assets	1,558,328	3,068,728
Issue of shares	39,552	53,350
Other items	76,592	161,903
	46,843,300	35,561,790
Application of funds:		
Additions to properties, plant and equipment	27,578,713	21,584,509
Repayments of long-term debt	7,813,208	5,517,893
Dividends paid	6,973,487	6,969,517
Net increase in mortgages and other advances	493,240	784,448
Additions to deferred charges	1,725,473	1,948,755
Decrease in minority interest	9,580	35,820
Premiums paid on acquisitions	1,164,463	(13,895)
	45,758,164	36,827,047
Net increase (decrease) in working capital	1,085,136	(1,265,257)
Working capital, beginning of year	15,512,895	16,778,152
Working capital, end of year	\$16,598,031	\$15,512,895

Auditors' Report

To the Shareholders of
Petrofina Canada Ltd.:

We have examined the consolidated balance sheet of Petrofina Canada Ltd. and its subsidiaries as at December 31, 1970 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in basis of consolidation referred to in

note 1 to the consolidated financial statements.

CLARKSON, GORDON & CO.
Chartered Accountants

Montreal, Canada,
February 12, 1971.

Petrofina Canada Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements December 31, 1970

1. Accounting Policies

Consolidation —

The consolidated financial statements include all subsidiary companies. In 1970, the Company increased its percentage holdings of the shares of two companies from a substantial interest to 100%. The accounts of these two subsidiaries have been incorporated on a retroactive basis and comparative figures for 1969 have been restated.

Production properties —

The companies follow the full-cost method of accounting wherein all costs related to the exploration for the development of oil and gas reserves are capitalized. The total costs thus capitalized are depleted on the composite unit of production method based on the estimated reserves of oil, gas and other saleable products. Depreciation on production equipment, gas plants and related facilities is provided on the same basis.

Refining, marketing and other properties and equipment—

Depreciation is based on the estimated service lives of the assets, calculated on the straight-line method except for vehicles, where the diminishing balance method is used.

Inventories —

Oil products and other merchandise are shown at the lower of cost and net realizable value. Cost of oil products has been determined on the basis of the last-in, first-out method. Materials and supplies are shown at the lower of cost and replacement value.

Foreign currencies —

Amounts in currencies other than Canadian dollars, have been converted on the following basis:

Current assets and current liabilities and advances by the parent company — at rates of exchange prevailing at year-end;

Long-term debt — at the rates of exchange prevailing at the date the debt was incurred;

Income and expenses — at rates of exchange prevailing through the year.

2. Properties, Plant and Equipment

	Cost	Accumulated depreciation and depletion	Net book value
Production	\$164,660,212	\$60,831,658*	\$103,828,554
Refining	76,209,271	40,558,680	35,650,591
Marketing	68,017,860	24,177,042	43,840,818
Other	10,078,370	1,814,665	8,263,705
	<u>\$318,965,713</u>	<u>\$127,382,045</u>	<u>\$191,583,668</u>

*includes depletion of \$48,212,282

Refinery expansion —

The Company is increasing the capacity of its existing refinery and adding new facilities. The total cost is estimated to be \$44,000,000 of which \$9,700,000 was expended during 1970. The Company has entered into a credit agreement for a maximum amount of DM 150,000,000 to finance this construction. Borrowings under this agreement, up to December 31, 1972, are to be by way of a construction loan which, at the option of the

Company up to that date, may be repaid in full without penalty, or converted into a long-term loan payable in sixteen equal semi-annual instalments between 1973 and 1980. The interest rate on the construction loan is dependent upon the prevailing Deutsche Bundesbank rediscount rate and, in any event, may not exceed 9.4% nor be less than 8.4%. At December 31, 1970, an amount of DM 35,153,200 (Cdn. \$9,899,673) had been drawn down under the terms of this agreement.

3. Deferred Charges

A subsidiary company has been engaged in establishing its manufacturing processes up to December 31, 1970, and all development and start-up expenses to that date (\$3,019,000) have

been deferred. Results of its operations will be incorporated in consolidated income commencing January 1, 1971, including a charge for the amortization, over a reasonable period, of the deferred expenses.

4. Long-Term Debt

Petrofina Canada Ltd. —

Secured:

6% loans due \$300,000 in 1971 and the balance in 1972	\$2,200,000	
Other	<u>219,333</u>	\$2,419,333

Unsecured:

4% sinking fund debentures, Series A, due 1972 (issued \$25,000,000 less converted or redeemed — \$15,496,000)	9,504,000	
5¾% Series A debentures, due \$1,000,000 in 1971 and the balance in 1972	3,500,000	
6½% Series B debentures, due \$550,000 in 1971 and the balance in 1972	3,609,844	
6½% Series C debentures, due \$300,000 in 1971 and the balance in 1972	1,300,000	
9% loan due \$500,000 in 1971 and \$400,000 annually to 1974	1,700,000	
5¼% loan due \$700,000 in 1971 and the balance in 1972	3,500,000	
Loan with interest at 1% above the prime rate, due \$330,000 annually to 1974 and the balance in 1975	3,000,000	
Loans with interest at ½% above the prime rate, due \$300,000 annually to 1972 and the balance in 1973	3,400,000	
Construction loan — see note 2 (DM 35,153,200)	9,899,673	
Other	<u>121,550</u>	<u>39,535,067</u>
		<u>41,954,400</u>

Subsidiaries —

Secured:

Production loans with interest rates varying between the prime rate and 1% above the prime rate due \$4,885,827 by 1975 and \$5,300,000 by 1976	\$10,185,827	
6% loan due \$75,000 in 1971 and the balance in 1972	550,000	
6¼% first mortgage repayable in monthly instalments to 1981	1,214,472	
Other	191,395	\$12,141,694

Unsecured:

6½% guaranteed promissory notes due U.S. \$850,000 annually to 1980 and the balance in 1981 (U.S. \$9,450,000)	10,202,865	
6¼% loan repayable \$500,000 annually to 1973 and the balance in 1974	2,000,000	
6% loan repayable \$75,000 in 1971 and the balance in 1972	550,000	
Loan with interest at ½ of 1% above the prime rate due \$200,000 annually to 1972 and the balance in 1973	2,600,000	
Loan with interest at the prime rate due by 1975	500,000	
Non-interest bearing advances made to finance the development of certain gas reserves, repayable out of production	2,674,979	18,527,844
		30,669,538
		72,623,938
		7,240,353
		\$65,383,585

Less instalments included in current liabilities

Payments required to meet retirement and sinking fund provisions amount to approximately \$25,753,000 in 1972, \$11,649,000 in 1973, \$6,832,000 in 1974 and \$7,050,000 in 1975. Of the \$9,504,000 4% sinking fund debentures outstanding, \$1,104,000 is included in current liabilities and the balance is shown above as maturing in 1972. It is the intention of the company to call these debentures for redemption in 1971, to be financed by a loan repayable \$500,000 annually in 1972 and 1973 and \$8,500,000 in 1974. Production loans include an amount of \$8,800,000

which had been drawn down by December 31, 1970. The full amount of credit available is \$12,500,000, the balance of which will be taken down as required in 1971.

Included in the covenants contained in the trust deeds or other agreements securing certain of the long-term debts, are restrictions limiting consolidated long-term debt and the payment of dividends by the Company. At December 31, 1970, approximately \$13,539,000 of the consolidated retained earnings was subject to such restrictions.

5. Capital

During the year, 3,200 common shares were issued under the stock option plan. The premium of \$7,552 received on the issuance of these shares has been credited to contributed surplus. The Company has reserved 54,200 common shares for issuance under the stock option plan, and as at December 31, 1970, options had been granted on 13,000 shares, particulars being as follows:

Number of shares	Option price per share	Date exercisable
4,400	\$11.02	To August 5, 1975
1,500	12.00	To October 31, 1971
600	12.625	To January 31, 1974
3,000	13.61	To February 4, 1975
3,500	14.00	To February 29, 1972

6. Income Taxes

For income tax purposes, intangible development costs, namely lease acquisition, exploration and drilling costs, have been claimed in excess of the related depletion and amortization reflected in the accounts, thus eliminating or reducing income taxes otherwise payable. On the other hand, capital cost allowances have been claimed in amounts which are less than the related depreciation reflected in the consolidated accounts.

The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes which originate in financial years commencing on or after January 1, 1968. However, The American Institute of Certified Public Accountants does not require tax allocation procedures at this time with respect to intangible development costs in the oil and gas industry. Management does not believe that tax allocation in

respect of intangible development costs is appropriate and many other companies in the oil and gas industry in Canada are in agreement with this opinion. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs for the years ended December 31, 1969 and 1970. At the same time, no credit has been taken for future tax reductions which will result from timing differences involving depreciation and capital cost allowances.

If the tax allocation basis, as recommended by the Canadian Institute of Chartered Accountants, had been followed in current and prior years, a charge against income for the year for income taxes of approximately \$1,500,000 (1969 — \$700,000) would have been required and the cumulative amount of deferred tax credits to December 31, 1970 would have been approximately \$8,700,000 (1969 — \$7,200,000).

7. Commitments and Contingencies

Annual rentals payable on long-term leases (three years and over) for real property, principally service stations, amount to approximately \$3,000,000 (1969 — \$3,000,000).

At December 31, 1970 the companies had

guaranteed loans of an associated company and of another company amounting to approximately \$1,800,000 and \$1,488,000 respectively and were contingently committed to purchase on or before December 31, 1971 bonds of another company in a maximum amount of \$1,462,000.

8. Remuneration of Directors and Officers

In accordance with the requirements of Section 120B of the Canada Corporations Act, as amended in 1970, the following information is reported:

Information concerning other subsidiaries has been omitted as it is not considered to be material.

	Petrofina Canada Ltd.	Canadian Fina Oil Limited
Number of directors	19	6
Aggregate remuneration as directors	\$15,567	—
Number of officers	8	5
Aggregate remuneration as officers	\$359,304	\$144,240
Number of officers who are also directors	2	3



Petrofina Canada Ltd. and Subsidiaries

Ten-Year Review of Operations

STATISTICAL

	1970	1969	1968
Crude oil and natural gas liquids production (before royalty) for the year (thousands of barrels)	6,217	5,324	5,151
Natural gas sales (before royalty) for the year (millions of cubic feet)	32,306	27,945	24,969
Number of wells drilled in which Company had participation	54	85	89
Number of wells completed in which Company had participation	15	44	42
Sulphur sales (long tons)	124,400	105,700	52,400
Gross acreage (thousands of acres)	76,300	76,700	88,000
Net acreage (thousands of acres)	8,900	10,400	11,300
Crude oil run to refinery stills for the year (thousands of barrels)	20,671	19,125	17,666
Total outlets used in distribution of refined products	1,609	1,625	1,739
Number of employees	2,057	1,616	1,607

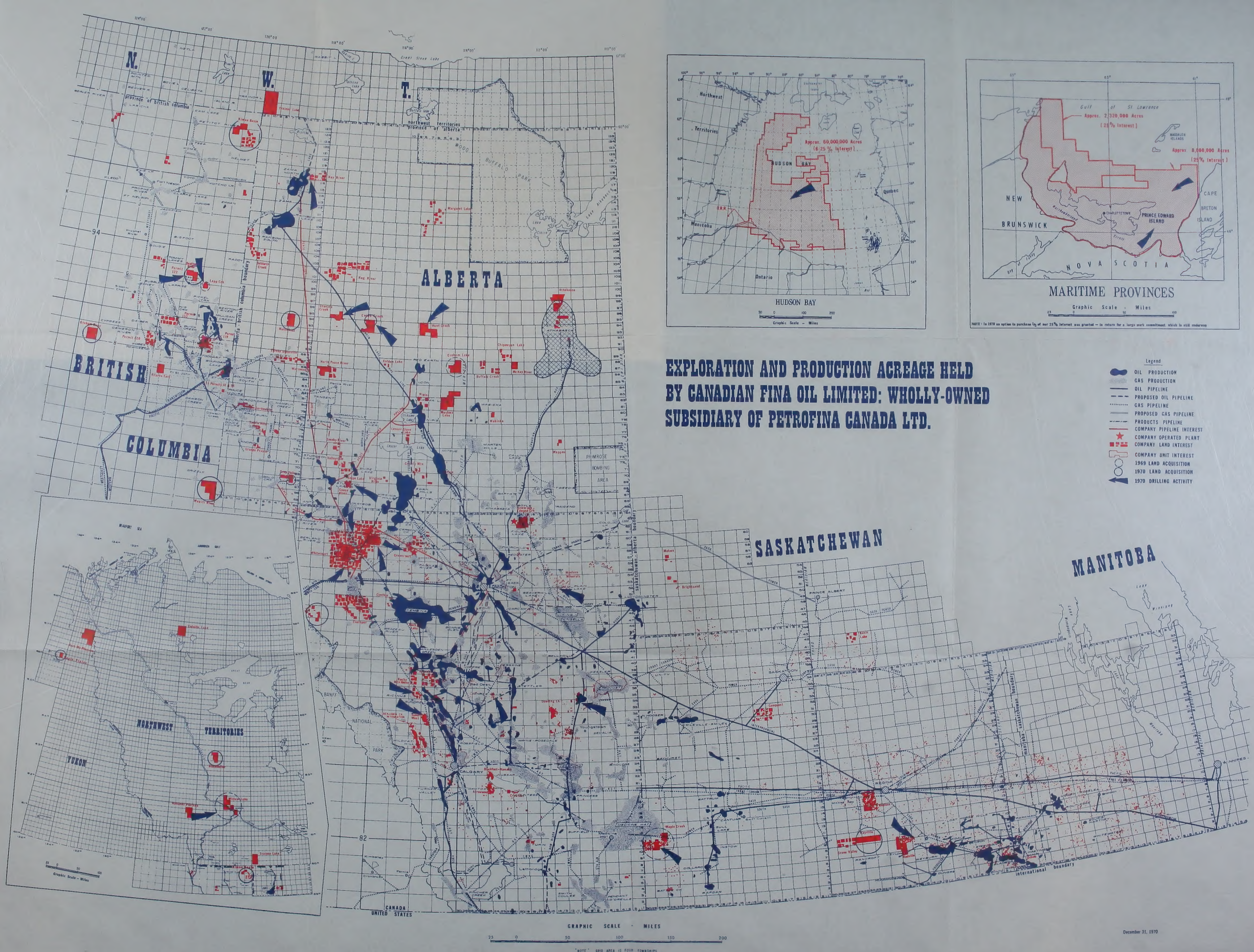
FINANCIAL (in thousands of dollars)

Gross income for the year	191,866	185,179	162,712
Net income	16,555	13,402	13,014
Depreciation, depletion and amortization (including amortization of excess cost)	11,190	9,842	9,760
Total cash generated	27,745	23,243	22,774
Working capital	16,598	15,513	15,586
Total assets	301,831	272,479	246,864
Long-term debt	65,384	55,772	46,739
Book value of shareholders' equity	161,536	151,915	146,750

*The financial figures prior to 1969 have not been restated to reflect the inclusion of two companies which became subsidiaries in 1970.

1967	1966	1965	1964	1963	1962	1961
5,305	5,104	4,614	4,578	4,393	4,306	3,306
23,494	22,057	21,631	22,179	20,320	19,186	6,500
76	119	84	66	86	143	142
41	74	43	42	52	112	95
81,100	74,900	71,500	57,000	49,500	25,100	—
15,700	6,200	5,800	5,600	5,400	5,800	6,180
5,500	2,900	—	—	—	—	—
15,852	13,290	12,168	11,702	11,559	10,552	10,461
1,731	1,755	1,783	1,783	1,768	1,751	1,711
1,491	1,388	1,352	1,262	1,116	1,146	1,092
155,709	143,828	143,345	139,155	131,388	84,551	67,677
10,706	9,292	8,549	7,076	6,973	6,706	5,517
10,376	9,442	8,870	8,950	8,191	8,490	7,116
21,082	18,920	17,550	16,157	16,399	16,519	14,069
15,052	15,721	12,396	10,370	10,153	12,993	11,251
243,798	229,231	220,349	203,808	201,761	185,818	182,938
49,500	39,838	34,378	31,935	27,910	27,808	30,699
139,457	134,352	130,999	127,737	126,266	125,038	122,981

*The map attached to the back cover
shows the Company's land holdings
and areas of activity in 1970.*





Feb

PETROFINA CANADA LTD. LTÉE

TELEPHONE: (514) 866-8861 — TELEX: 05267593

1 PLACE VILLE MARIE — C.P. 3006 STATION B

MONTREAL 113, P.Q.

P R E S S R E L E A S E

For release: AUGUST 10, 1970

Information: R. Lhoumeau
Director, Public Relations
514 - 866 - 8861

Petrofina Canada Ltd. announced today that the Company's consolidated net profit for the first six months of 1970 amounted to \$7,036,000 (70.6¢ per share), compared with \$6,305,000 (63.3¢ per share) in 1969. 11.511

The 11.6% increase in earnings was due partly to lower foreign exchange costs resulting from the freeing of the Canadian dollar from its previous fixed limits, and partly to higher income from increased sales of crude oil, natural gas and natural gas liquids.

A dividend in the amount of 35¢ per share was declared, payable on September 30, 1970, to shareholders of record on August 31, 1970.

